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ECONOMIC AND  
REVENUE FORECAST

## *ECONOMIC AND REVENUE FORECAST*

### **County Revenue Sources and Fund Accounting**

King County provides a wide range of services and programs to its residents. In order to support the expenditures necessary to provide these services and programs, the County obtains revenues from multiple sources. Taxes, contract fees and fines support services typically provided by government such as elections, jails, courts, policing and prosecution and defense of criminal cases. Certain other services are partly or completely supported by fees for services, regulatory fees, or dedicated tax levies. Examples of County activities funded wholly or in part with fees and dedicated funds include permitting, building inspections and mental health and drug dependency programs. County utility services like solid waste services and stormwater management are supported by charges to customers. Lastly, grant revenues from various agencies support a variety of County services, including capital projects.

The County accounts for all revenues and expenditures using funds and sub-funds. The use of multiple funds is necessary to ensure compliance with state laws and the practices of accounting and to provide tracking of revenues and expenditures. The County's primary fungible fund is the General Fund. The majority of the County's criminal justice functions such as the Sheriff, the Prosecuting Attorney's Office and the courts are supported by revenues from the General Fund. Other funds are restricted in use and support specific functions or capital programs. For example, the Public Transportation Enterprise Fund can only be used to track revenues and expenditures incurred in the provision of transit service.

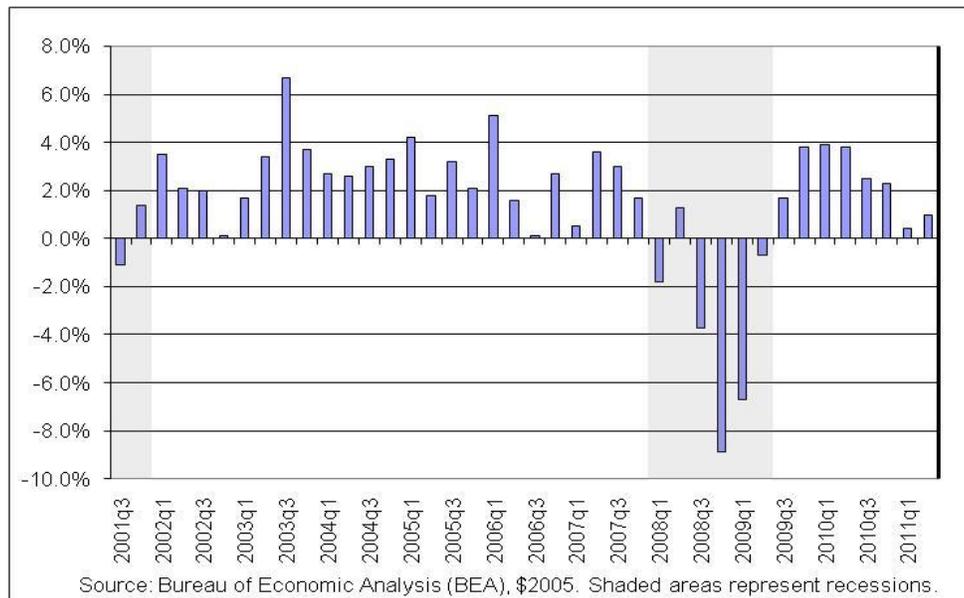
All County revenue sources are directly or indirectly affected by the performance of the economy. For example, sales tax revenues which account for about 13% of general fund revenues, 50% of transit revenues and also support criminal justice, child and family services and mental health, vary significantly depending on local and national economic conditions that affect income, employment, wealth and prices. The following section describes the current outlook for the national and local economies, and presents detail on forecasts for revenues supporting County funds. The fund summary for the General Fund is also located in this section, while other fund summaries are located in the various sections throughout the budget document.

### **The National and Local Economy**

The National Bureau of Economic Research dated the previous recession from December, 2007 to June, 2009. However the effects of the recession continue today. There are approximately 14 million people unemployed as of August 2011. Close to 9 million others are underemployed (they would like to work more than they are currently working but can't due to economic reasons). Household wealth has recovered some from the low in 2008 but is still nearly 10% below what it was in 2007 as most households face diminished home values and financial asset portfolios. Some households have been forced into foreclosure. Financial assets have partially recovered as the Dow Jones Industrial Average is now about 11,000, up from its recession low of less than 7,000. However, U.S. households are facing higher energy prices this year with gas prices nearly \$1.00/gallon higher than they were a year ago. Concerns about jobs, the sovereign debt problems of some European governments and future U.S. fiscal policy are weighing on many. Recent consumer sentiment surveys indicate households are very concerned about the future of the economy.

The economy began expanding again in the third quarter of 2009. This expansion has been slow by historical standards. Gross Domestic Product (GDP) growth in the first half of 2010 was near the historic pace, but the second half of 2010 yielded slow growth and in the first half of 2011, real GDP growth has slowed even more.

**Real U.S. GDP: Year-on-Year Growth**

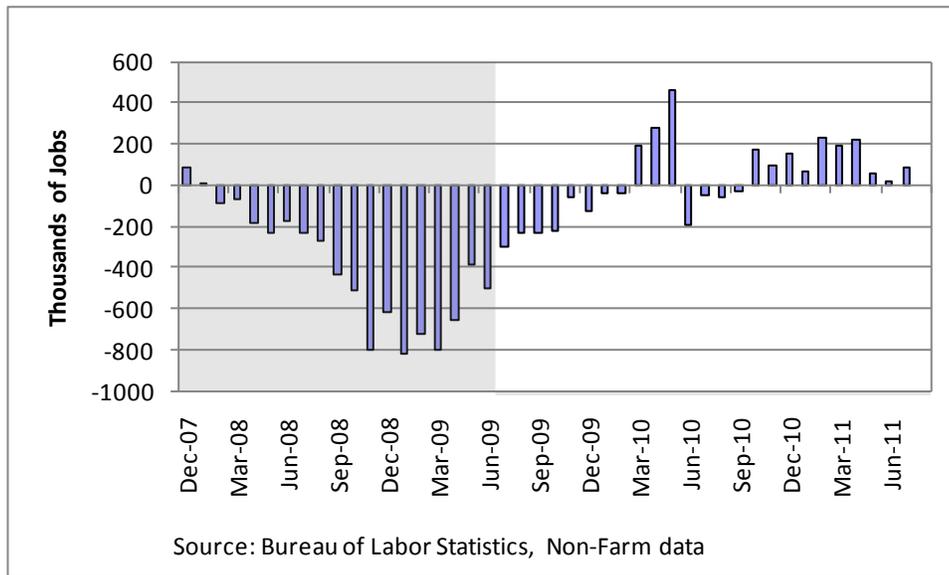


Over 70% of the value of GDP is from consumption expenditures. In the 2<sup>nd</sup> half of 2010, consumption expenditure growth averaged just over 3%. But in the first half of 2011, consumption expenditures grew at 2.1% in the first quarter and 0.1% in second quarter. This reduction in the growth of consumer expenditures is likely associated with households facing significantly higher energy prices, and worries about high unemployment and the depressed housing market.

Other components of GDP are also struggling. Investment expenditures have been relatively strong for business equipment but housing and business structure spending is still severely depressed. Government spending, which has been a stimulus to growth through much of the downturn has now changed to be a drag on growth as governments at all levels reduce expenditures. Approaching the third quarter of 2011, the concern is whether the economy will be able to maintain at least weak growth or slide into a second recession.

Employment levels have stabilized but job growth has been weak. From the peak of the recession until the trough in 2010, 8.8 million U.S. non-farm jobs were lost. Factor in historical job growth and the economy has 10 to 11 million fewer jobs today than would have been expected before the recession began. Job growth returned in 2010, but was weak. Gains early in the year were mostly due to temporary census workers, which became employment reductions in April through June of 2010. Job growth since that time has been weak. Nationally, unemployment continues to be high and rates are not likely to be reduced quickly due to the sluggish growth of the economy.

**Monthly Change in U.S. Employment**



Throughout the recent downturn, price increases were small and prices were actually lower on a year over year basis in some periods. However recent increases in energy prices have caused the major inflation indices to increase significantly. Prices are about 3.7% higher in July 2011 than they were one year previously.

**U.S. CPI (% Change, year on year)**



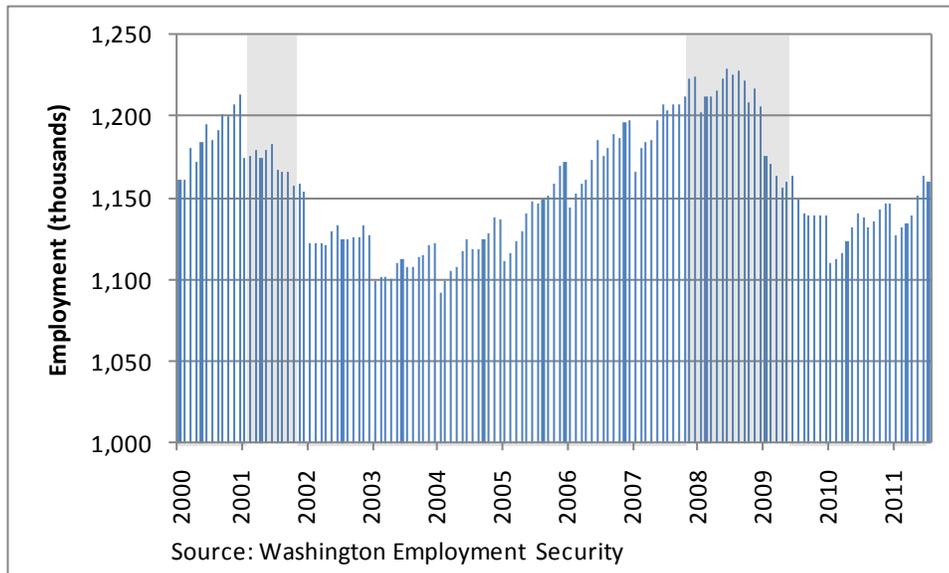
The lackluster economic performance was also affected by several fiscal and monetary policy measures. This includes the ending of a special stimulus program by the Federal Reserve and the negotiations over the federal debt limit. These debt negotiations were protracted and bitter and even though a new debt limit was eventually negotiated, Standard and Poor’s took the unprecedented step of downgrading U.S. sovereign debt. There is concern over what this downgrade means in the long-term, but bond yields actually fell after the announcement, likely driven by international events and the perception that the U.S. dollar is still a global safe haven.

The biggest question about the economy is whether it will continue to expand in 2011 or head back into recession. Though the indicators in late 2010 were promising, recent economic indicators suggest that at minimum a slowdown in the recovery may be underway.

**Puget Sound Regional Forecast**

Overall, the Puget Sound region's economic performance has been consistent with U.S. economic performance. However, recent indicators suggest the local economy is out-performing the U.S. economy. Job growth in the region is up about 1.9% (July 2010 to July 2011) compared with 1.0% for the U.S. economy. The unemployment rate for the region is about 8.9% whereas it is about 9.1% for the U.S. economy and, at a rate of 8.6%, the King County difference is even larger.

**King County Monthly Employment Levels**



From a peak in the first quarter of 2008 to the trough in employment in the fourth quarter of 2009, King County employment contracted by approximately 90,000 jobs on a base of approximately 1.2 million. The job loss was split between the service sector and the goods production sector. However, the goods sector is much smaller making up about 15% of the total employment in King County, and so the losses were proportionally larger in this sector.

The recent employment growth has been spread throughout many sectors of the local economy but focused in services including professional and business services and trade. Jobs focused in goods production continue to contract along with government jobs.

This employment growth, together with other economic improvements, is driving an increase in retail sales. Retail sales in King County have been trending about 4% to 6% (in nominal terms) higher than one year ago which is good for local businesses. However, challenges remain. The local real estate market is still down. Residential values are down approximately 7% from one year ago and local consumers face the same higher prices as the nation. The region's recovery is expected to continue. According to the Puget Sound Economic Forecaster, total employment growth for the region is forecast to be 1.3% in 2011 and 2.0% in 2012.<sup>1</sup>

<sup>1</sup> The Puget Sound Economic Forecast, June, 2011.

**King County Revenue Forecasting**

The national and local economy has a significant impact on many of the revenue sources of the County. For example, the tremendous drop in the wealth of U.S. households, high unemployment and flat prices (until this year) have significantly reduced the amount of sales tax revenue obtained by the County in recent years. Other revenue sources like the Real Estate Excise Tax (REET) are subject to the weak housing market. Reduced property values also affect the amount of revenue the County expects to receive in some cases (e.g. the Emergency Medical Services property tax levy). Understanding and forecasting the trends in the economy are important to the long-term fiscal strength of the County.

In 2008, King County voters passed a charter amendment that changed how revenue forecasting for the King County budget is accomplished. The amendment required the County Council to establish a Forecast Council to adopt economic and revenue forecasts that must be the basis of the executive’s budget proposal and established a new agency called the Office of Economic and Financial Analysis (OEFA) to perform the forecasting work. The Forecast Council is made up of the Executive, two County Council members and a County employee with knowledge of budgeting and finance appointed by the Executive (currently the Director of the Office of Performance, Strategy and Budget). OEFA provides forecasts to the Forecast Council that are then reviewed and adopted. The approved OEFA forecast was used in this 2012 proposed budget.

OEFA uses statistical models to forecast specific County and regional economic variables (e.g. property values and local inflation) and the larger County revenue streams (e.g. sales taxes). In general, the models use local, regional and national inputs like U.S. personal income, U.S. CPI and employment from other sources to predict local variables. The table below lists some of the variables and values used as inputs into their models.

**Economic Assumption Summary**

Input to Forecasts Dated Sept. 1, 2011

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>King County</b>					
Nominal Personal Income (% chg, PSEF)	2.3%	5.2%	4.4%	4.7%	4.9%
Unemployment Rate (Ratio, PSEF)	8.8%	8.1%	7.8%	7.3%	6.8%
Taxable Sales (% chg, PSEF)	-1.0%	4.9%	5.9%	5.9%	6.3%
Housing Permits (% chg, PSEF)	75.3%	-2.2%	11.6%	14.9%	13.5%
Consumer Price Index - U (% chg, ERFC)*	0.30%	2.18%	1.01%	1.66%	
Construction Employment (% chg, PSEF)*	-12.4%	-3.5%	4.4%	4.3%	5.2%
<b>Washington State</b>					
Nominal Personal Income (% chg, ERFC)	2.6%	4.9%	3.2%	4.6%	
Unemployment Rate (Ratio, ERFC)	9.6%	9.2%	8.9%	8.2%	
Multi-Family Permits (% chg, ERFC)	49.0%	33.2%	19.7%	25.0%	
<b>United States</b>					
Real GDP (% chg, GIB)	3.0%	1.6%	1.9%	2.2%	3.2%
Unemployment Rate (Ratio, GIB)	9.6%	9.1%	9.1%	8.8%	8.1%
Ten-year Treasury Yield (Level, GIB)	3.2%	2.9%	2.7%	2.9%	3.6%
Consumer Price Index (% chg, BCCF average)	1.6%	3.0%	2.2%	2.2%	2.2%
House Prices (% chg, ERFC)	3.1%	3.0%	-0.9%	1.2%	

\* Puget Sound Region

GIB = Global Insight Baseline Forecast - August 2011

ERFC = Washington State Economic & Revenue Forecast Council - August 2011 (ERFC does not forecast past 2013)

PSEF = Puget Sound Economic Forecaster - June 2011

BCCF = Blue Chip Consensus Forecast - August 10, 2011

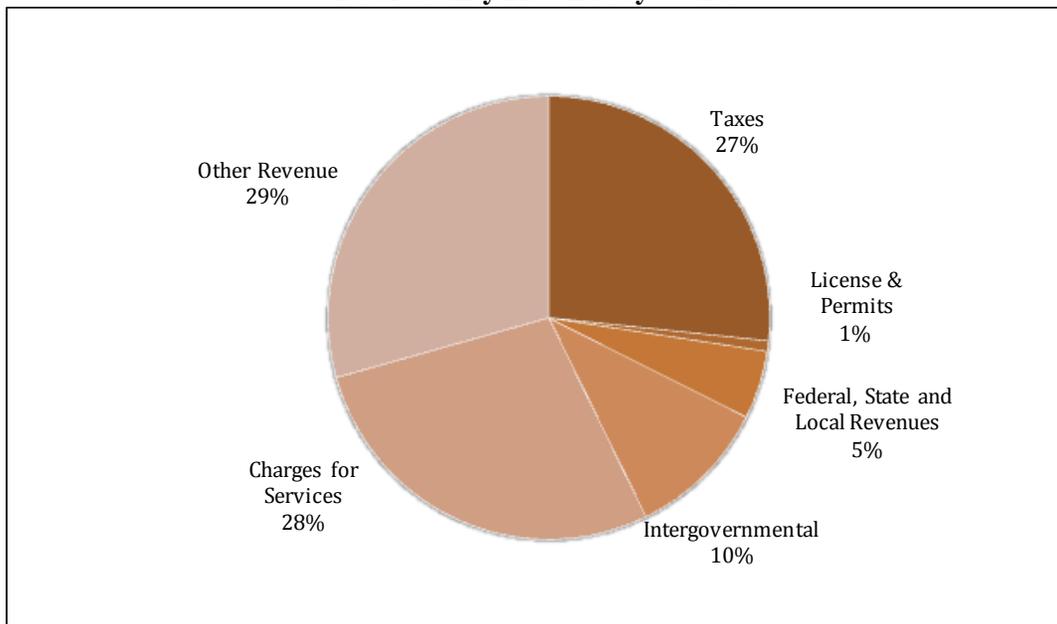
OEFA's inflation forecast for 2011 is 1.81%, for 2012 it is 2.16% and for 2013 it is 1.95% (as measured by the Seattle Consumer Price Index for Urban and Clerical Workers; CPI-W, July to June).

**King County Revenues**

***Total County Revenues***

King County projects total revenues of over \$5.3 billion in 2012<sup>2</sup>, which King County distributes to more than 50 separate funds. The largest funds include those for transit, wastewater, surface water management, roads and the General Fund. The largest revenue sources are charges for services, other revenues and taxes. Together they account for over 80 percent of all revenues. Taxes include several major property tax levies, four different sales tax assessments, and taxes on real estate transactions. Charges for services include both direct contracts, interfund payments, and other services provided by the County.

**Total County Revenue by Source**



Taxes account for an estimated 27 percent of total operating revenues (excluding capital project and biennially budgeted 2013 revenue) and 61 percent of General Fund revenue. The major tax sources for the County include property taxes, sales and use taxes, hotel and motel taxes, and telephone excise taxes to support the enhanced-911 system. Total King County tax revenue is projected to be \$1,194 million in 2012, an increase of 4.0% from the adopted 2011 budget. These revenues support operating expenses, debt service, and some capital projects. Property taxes are the largest single tax source for the county, with a proposed levy of approximately \$614.6 million in 2012, including \$94.7 million levied for Emergency Medical Services, of which \$34.2 million is disbursed directly to the City of Seattle. The total levy also includes the \$23.7 million levy for the provision of transit service which was created in 2010.

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<sup>2</sup> Interfund transfers, overhead rates and other transactions are duplicates in some funds in the total revenue figure of \$5 billion.

Total County Revenue by Source

All Funds Revenue Summary

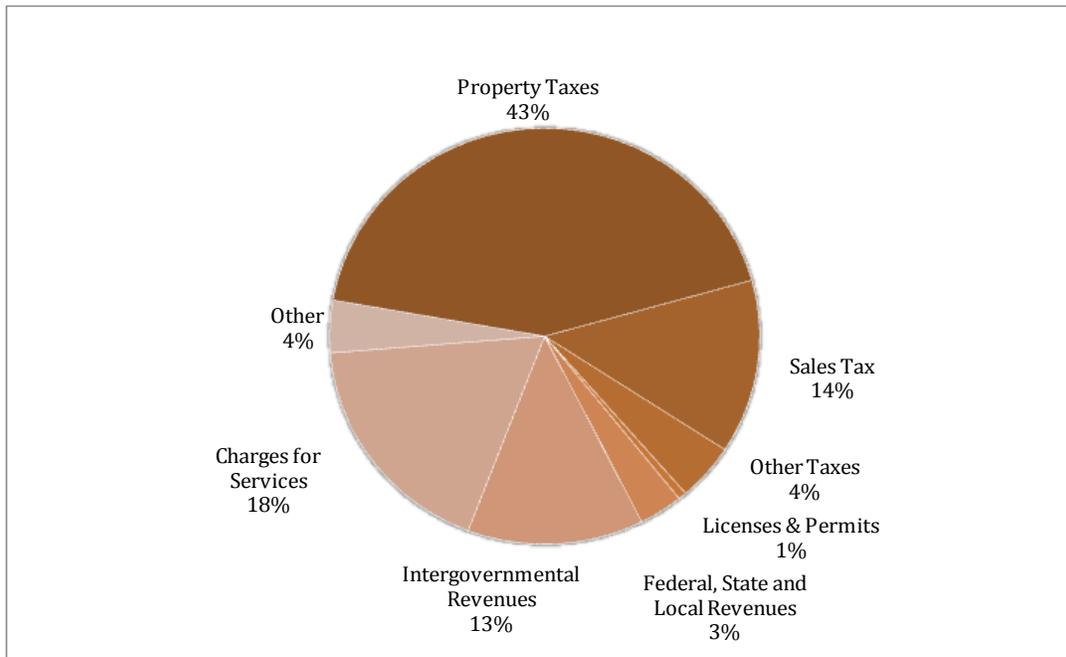
	2010 Adopted	2011 Adopted	2012 Proposed	Dollar Change 2012-2011	% Change
Taxes	\$ 1,141,463,685	\$ 1,145,711,274	\$ 1,194,087,454	\$ 48,376,180	4%
Licenses & Permits	21,322,600	21,336,777	34,461,616	13,124,839	62%
Federal Grants-Direct	32,224,360	34,219,762	34,301,100	81,338	0%
Federal Shared Revenues	1,044,211	1,011,985	115,000	(896,985)	-89%
Federal Grants-Indirect	68,394,903	69,576,860	117,936,194	48,359,334	70%
State Grants	44,190,221	43,538,470	36,792,698	(6,745,772)	-15%
State Shared Revenues	90,000	96,809	-	(96,809)	-100%
State Entitlements	39,099,670	40,527,700	32,621,508	(7,906,192)	-20%
Grants From Local Units	948,125	1,052,092	1,165,487	113,395	11%
Intergovernmental Payment	421,965,039	460,050,272	463,046,299	2,996,027	1%
Recovery Act Direct	147,000	595,750	295,873	(299,877)	-50%
Recovery Act Indirect	3,133,315	41,250	-	(41,250)	-100%
Recovery Act Dhhs Direct	250,000	15,101,550	6,063,961	(9,037,589)	-60%
Charges For Services	1,111,567,342	1,164,260,335	1,249,578,431	85,318,096	7%
Fines & Forfeits	9,711,242	10,185,396	9,652,100	(533,296)	-5%
Miscellaneous Revenue	90,007,076	73,673,864	(200,195,448)	(273,869,312)	-372%
Non Revenue Receipts	8,992,592	8,010,215	7,320,538	(689,677)	-9%
Revenue-Biennial Budget	948,076,887	926,549,399	1,235,771,016	309,221,617	33%
Other Financing Sources	158,760,499	137,854,298	255,676,159	117,821,861	85%
<b>Subtotal Operating &amp; Debt Service</b>	<b>4,101,388,767</b>	<b>4,153,394,058</b>	<b>4,478,689,986</b>	<b>325,295,928</b>	<b>8%</b>
Capital Project Revenues	686,080,684	782,341,056	832,729,004	50,387,948	6%
<b>TOTAL COUNTY REVENUES</b>	<b>\$ 4,787,469,451</b>	<b>\$ 4,935,735,114</b>	<b>\$ 5,311,418,990</b>	<b>\$ 375,683,876</b>	<b>8%</b>

This table contains revenues for the 2012/2013 Biennium.

General Fund Revenue Forecasts

Expenses from the General Fund are supported by taxes and charges for service. As the chart below indicates, the most significant revenue source is the property tax, which accounts for 43% of revenue, followed by charges for services, intergovernmental revenues and sales taxes.

**General Fund Revenue by Type**



General Fund tax revenues increased in 2011 and are forecast to grow slowly as property taxes are limited in growth and taxable sales growth remains sluggish. The General Fund levy is projected to be \$299.1 million. Sales taxes are expected to yield about \$80.7 million.

**General Fund Revenue Summary**

	2010 Adopted	2011 Adopted	2012 Proposed	\$ Change 2012-2011	% Change
Taxes	\$ 378,807,495	\$ 378,977,896	\$ 392,574,838	\$ 13,596,942	3.6%
Licenses & Permits	8,071,125	3,967,501	3,971,884	4,383	0.1%
Federal Grants-Direct	1,158,373	1,152,870	970,488	(182,382)	-15.8%
Federal Shared Revenues	147,226	115,000	115,000	-	0.0%
Federal Grants-Indirect	8,350,104	9,225,148	8,658,908	(566,240)	-6.1%
State Grants	2,172,180	2,316,276	2,297,051	(19,225)	-0.8%
State Entitlements	7,281,155	8,625,858	9,243,514	617,656	7.2%
Intergovernmental Payment	81,983,340	86,762,087	85,465,576	(1,296,511)	-1.5%
Charges For Services	107,135,847	113,399,164	115,667,215	2,268,051	2.0%
Fines & Forfeits	9,686,772	10,106,837	9,415,580	(691,257)	-6.8%
Miscellaneous Revenue	17,699,399	17,812,039	15,764,432	(2,047,607)	-11.5%
Other Financing Sources	122,858	42,858	30,000	(12,858)	-30.0%
Inmate Welfare Fund Misc. Rev.	905,400	900,000	1,000,000	100,000	11.1%
<b>TOTAL REVENUES</b>	<b>\$ 623,521,274</b>	<b>\$ 633,403,534</b>	<b>\$ 645,174,486</b>	<b>\$ 11,770,952</b>	<b>1.9%</b>

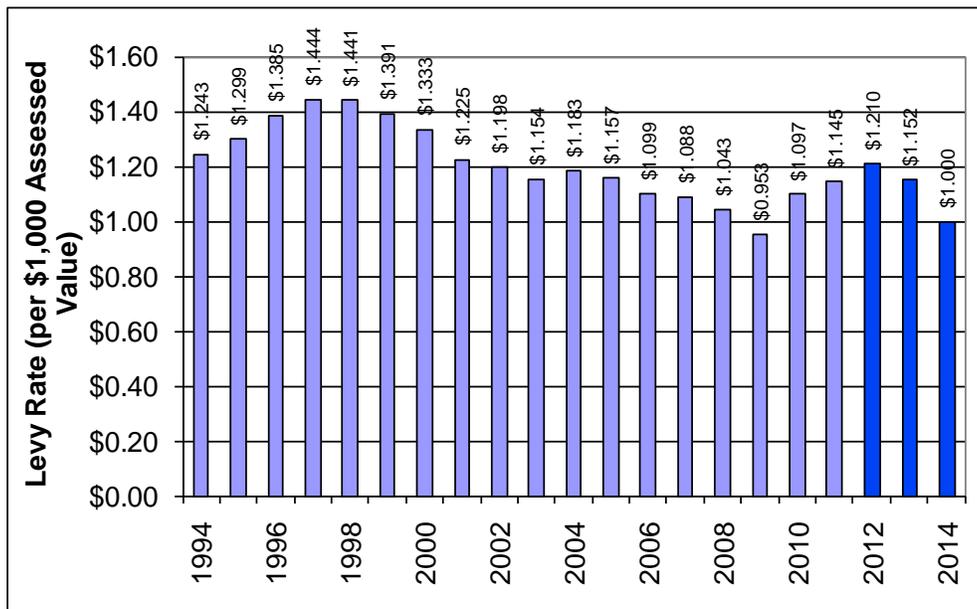
In 2011, Animal Services transferred into it's own special revenue fund, therefore, Licenses and Permits category is lower.

**Property Tax**

Property taxes are levied primarily on real property owned by individuals and businesses. Real property consists of land and permanent structures, such as houses, offices and other buildings. In addition, property tax is levied on business machinery and equipment. In accordance with the Washington State Constitution and state law, property taxes paid by a property owner are determined by a taxing district’s rate applied to the value of a given property. In the County, the total property tax levy varies based on the make-up of the various taxing districts including fire, hospitals, cities, and the countywide levy. The King County assessor determines the fair market value of properties, which is intended to generally reflect 100% of the property’s market value.

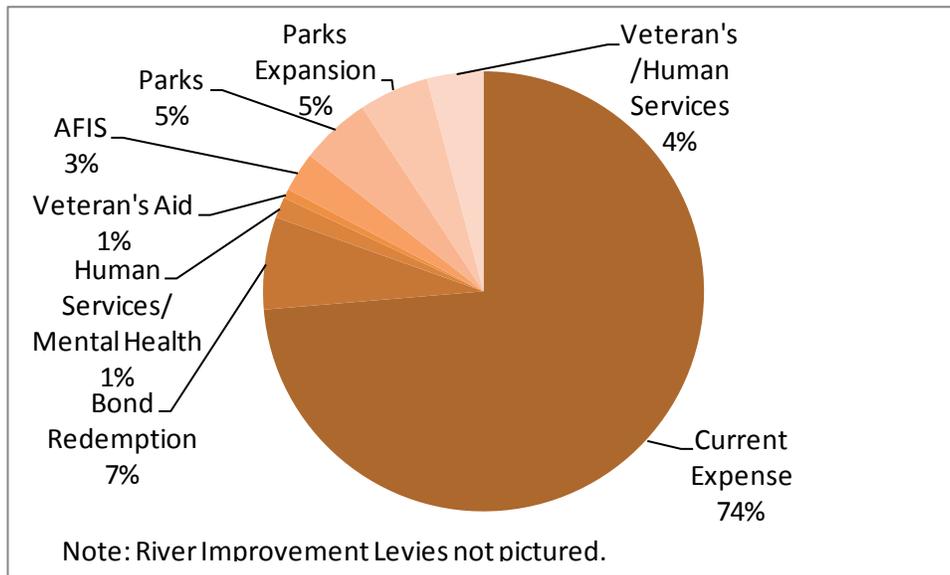
In 2011, the total countywide levy rate was \$1.14534 per \$1,000 of assessed value. This includes the undesignated general fund and the dedicated millage for mental health/developmental disabilities, human services, veterans’ aid, inter-county river improvements, limited tax bond redemption, and voter approved lid lifts. For an owner with a \$350,000 home value, the total countywide tax liability was \$400.87 in 2011. The levy rate has varied through time as indicated below.

**Property Tax Levy Rate per \$1,000 of Assessed Valuation**



The chart below illustrates the various components of the County’s 2011 property tax: the non-voted general purpose levy, and the four voter approved levies known as lid lifts because the voters authorized taxation above the statutory lid or limit.

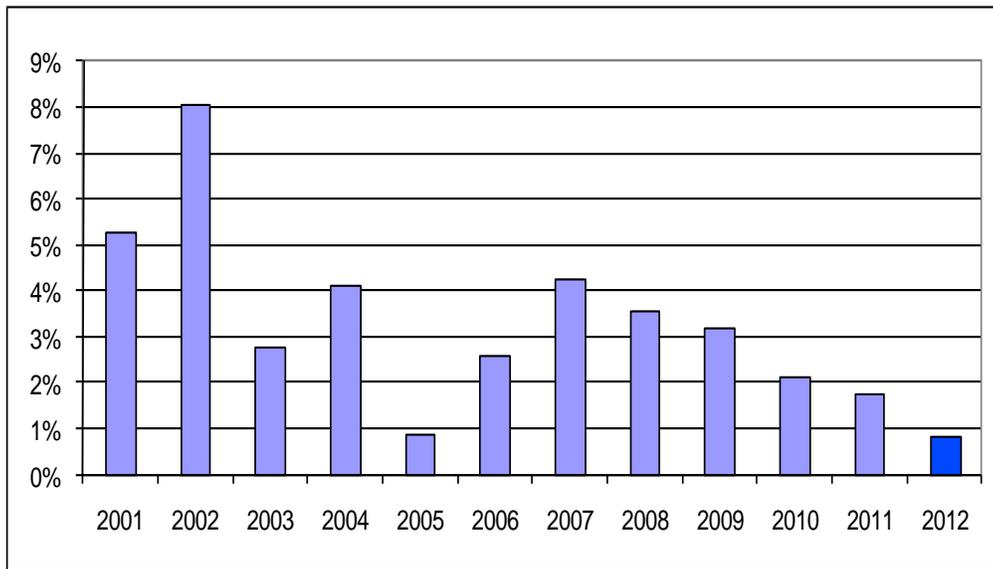
2011 Countywide Levy



The countywide levy is only one part of the total property tax bill due from County residents. Property taxes are collected through the countywide levy, the unincorporated areas levy, the emergency medical services levy and the conservation futures levy. These receipts are dedicated to various funds within King County.

The annual growth in property tax revenue is restricted by state law in two ways. First, the state limits growth in the amount of tax revenue a jurisdiction can collect: currently one percent annually plus the increase in the value of new construction. Previously, beginning in 1973, state law limited the annual growth of the County's regular levy (i.e. general purpose plus voted lid lifts) to 6%. In 2001, Washington voters approved Initiative 747 (I-747) which changed the 6% limit to the rule noted above. In November 2007, I-747 was found to be unconstitutional by the State Supreme Court. However, the governor and state legislature in a special session reenacted Initiative 747 with House Bill 2416, and it was adopted in late 2007. Overall the growth rate in county non-voter approved property taxes has been reduced in recent years.

**Countywide Property Tax Growth Rate**



The amount of property taxes collected is also limited by various dollar limits. State law limits the amount of the total levy for the County, cities and junior taxing districts to \$5.90 per \$1,000 of assessed value (AV). This includes limiting the countywide levy to \$1.80 per \$1,000 of AV, and the unincorporated areas levy to \$2.25 per \$1,000 of AV. Though the countywide levy is well below \$1.80, the total \$5.90 limit is projected to be exceeded in several levy codes in unincorporated King County. State statute specifies what happens in this case by determining the order and level of reduction for each taxing entity.

The overall countywide levy is projected to rise to \$382.2 million in 2012, up from \$376.4 million in 2011. This amount includes an enhanced parks’ operating levy and a parks’ capital levy, both of which were authorized in the August 2007 primary election. The countywide levy also includes the Automated Fingerprint Identification System (AFIS) lid lift of \$11.1 million, which is reduced below the projected allowable limit of \$17.9 million in 2012 because of operational efficiencies in the AFIS program. This results in a levy rate that is over two cents below the \$0.05680 rate authorized by voters in 2007. The existing veteran’s and human services lid lift was set to expire at the end of 2011. However, on August 16, 2011, voters renewed the levy for another six years (through 2017). The levy will fund capital facilities and services that reduce medical costs, homelessness, and criminal justice system involvement with half of the proceeds supporting veterans and their families.

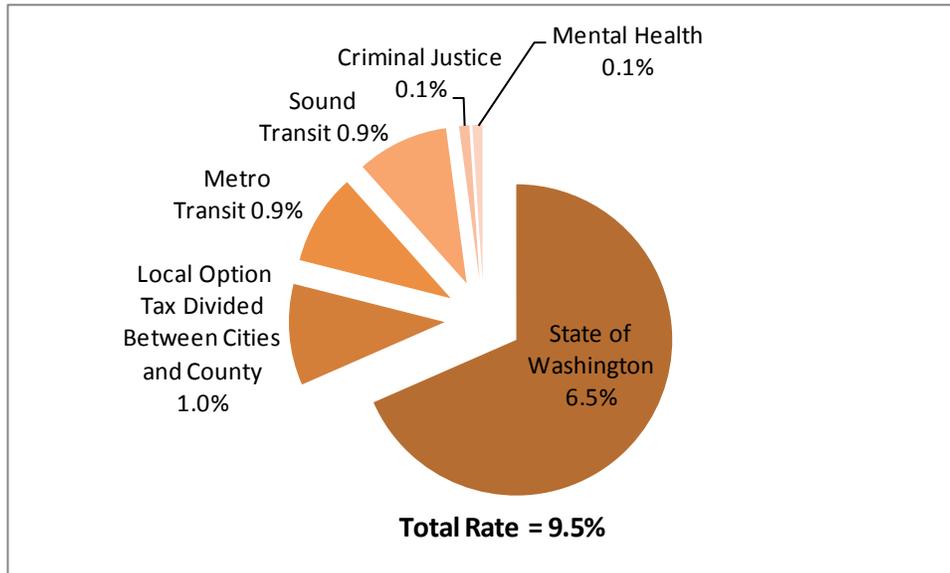
The amount remaining for unrestricted use in the General Fund is the total levy capacity less distributions for debt service, inter-county river improvement, veterans, and other designations. New construction results in an increase of approximately \$1.8 million above one percent growth.

***Retail Sales Tax***

The retail sales and use tax (sales tax) is imposed on the sale of most goods and certain services in the County. The tax is collected from consumers by businesses that, in turn, remit the tax to the state. The state provides the County with its share of these revenues on a monthly basis. The sales tax rate is 9.5 percent for most taxable transactions.

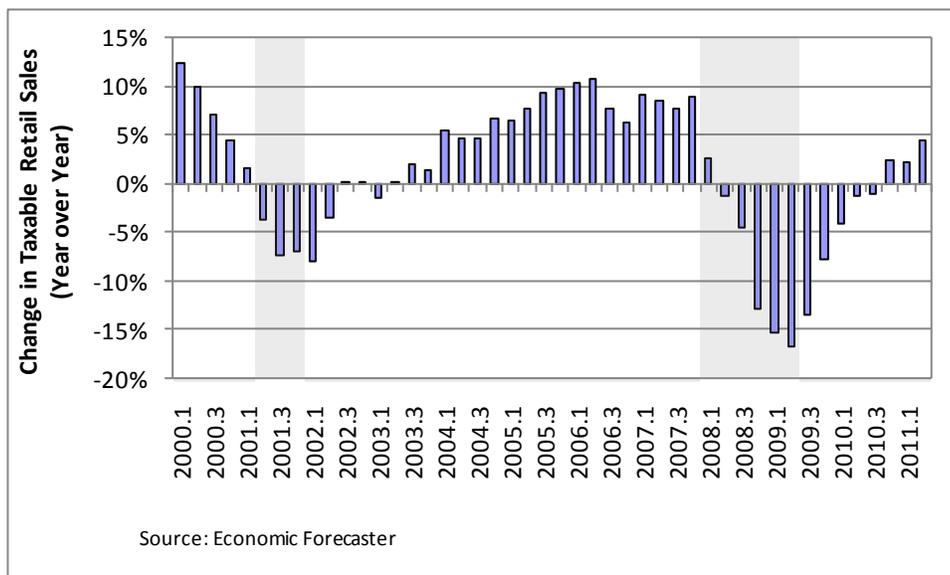
The basic sales tax rate is a composite of separate rates for several jurisdictions. The county’s portion is 1% of sales in the unincorporated area and 0.15% of the sales in the incorporated areas. The County also receives sales tax revenue for transit, criminal justice and mental health.

**2012 Sales and Use Tax Rates in King County**



The sales tax is strongly influenced by changes in the economy and by the geographic areas from which it is collected. The county’s public transportation and criminal justice programs receive revenues from countywide retail sales, with unincorporated areas constituting a little under four percent of the tax base. In contrast, over 20% of King County’s General Fund sales tax revenue is collected in unincorporated areas. Differences in the geographical composition of taxable retail sales also complicate analysis of revenue over the course of the business cycle. Sales tax revenues vary over time based on economic variables.

**Real King County Taxable Retail Sales (Year-over-Year Growth Rate, Quarterly)**



Policy changes also affect sales tax revenues. In 2008, Washington State entered into the Streamlined Sales Tax agreement and began implementation in July 2008. Previously, the sales tax rate was based on the jurisdiction from which the product was shipped, with that jurisdiction receiving its local option sales tax. Under sales tax streamlining, the destination of the product determines the jurisdiction that receives the local portion of the sales tax. Because this negatively impacted some of the jurisdictions, the State is

providing mitigation payments to some jurisdictions including King County. This increases sales tax revenues relative to what they would have been without mitigation. A second policy change was the elimination of the exemption on candy and bottled water that went into effect in 2010. This had the effect of expanding the eligible sales subject to the sales tax. However, in November 2010 voters re-instated this sales tax exemption. Finally, in late 2010, the legislature voted to allow an amnesty period for businesses that owed back sales taxes. This amnesty resulted in many firms paying taxes and has resulted in significant additional revenues to the County in 2011.

Taxable sales are forecast to increase by 5.4% in 2012 reflecting a recovering economy. 2011 sales are also expected to increase by about 4.8%. This reflects stronger consumer purchases, the amnesty program and the effect of the annexation of Juanita, Finn Hill and Kingsgate to the City of Kirkland.

### ***Contract Revenue***

Contracts are a key revenue component for several agencies. By contracting with the County, cities are able to take advantage of the County's economies of scale, as well as the expertise and experience of its workforce. Examples of contract revenues are the Sheriff's provision of deputies to cities and transit agencies, District Court contracts and jail provision. These contract revenues are further explained in the individual agency sections. General Fund contract revenues are forecast to be \$83.3 million in 2012 and \$85.4 million in 2013.

### ***Revenue from Other Entities***

The County receives revenue from federal, state and local governments. These revenues include capital and operating grants for various programs and liquor board profits.

### ***Licenses and Permits***

The County requires individuals and companies conducting business in unincorporated King County to obtain a business license. Some business activities require additional licenses referred to as professional and occupational licenses. The County also assesses fees for public-safety purposes (e.g. pet ownership) and charges a variety of fees for the use of public facilities and rights-of-way.

### ***REET***

King County levies the Real Estate Excise Tax (REET) in unincorporated King County and administers state and city REET taxes throughout the County. REET consists of two 0.25 percent taxes on real estate transactions. REET revenues were high during the peak years of the housing boom (2005-2007). Recent collections have dropped dramatically as the housing market has corrected. Each is forecasted at just over \$3.1 million in 2012. This compares with over \$11 million each in 2005 and 2006.

### **Summary of the General Fund Financial Plan**

The revenues and expenditures for General Fund programs are described in the specific budget book chapters. Additional longer range projections are shown in the fund financial plans. This section provides an overview of the revenue, expenditure, and reserves of the General Fund, including the Rainy Day Reserve. For additional detail, consult the financial plan on the following page as well as the footnotes detailing the underlying policies and assumptions.

### **Revenues**

The General Fund had been experiencing declining revenues for multiple years, however most revenue categories have stabilized in 2011 and 2012. Interest earnings remain low and contract revenue remains uncertain as many other jurisdictions work through the economic climate. In 2012, revenues are expected to increase by \$11.8 million from 2011 Adopted levels (including debt service changes) to approximately \$645.2 million. This is a year over year increase of 1.9%.

### **Expenditures**

For 2012, General Fund expenditures are forecast to be approximately \$648.1 million. This is \$28.7 million higher than 2011 Adopted expenditures, a year over year growth rate of 4.6%. Expenditure growth has fallen in 2012 from historic levels due to cost reducing efficiencies, and savings from benefits and labor costs.

### **Reserves and Fund Balance**

As a result of General Fund underexpenditures and higher revenue collections than projected in 2010, actual starting fund balance in 2011 was higher than anticipated. This additional fund balance was used for expenditures carried over into the 2011 budget, technology and infrastructure investments in 2011 and in the 2012 budget, and to increase fund balance and reserves. The 2012 ending fund balance forecast is \$89.1 million, 24% higher than 2011 Adopted levels and the Proposed Budget increases the undesignated fund balance from the 6.0% minimum to 6.5%. Reserves and fund balance are considered one of the best tools to ensure the long term sustainability of county services.

The 2012 Proposed Budget includes adjustments to existing reserves and includes six new reserves. These reserves are set up to fund specific activities, to offset known future increases in cost, or to protect against uncertainty. The reserve for increased retirement obligations is proposed to be increased by \$3.0 million in 2012 to help the County absorb large expected future contribution requirements. The Emergent CJ Reserve has been spent down in 2011 and in the 2012 Proposed Budget.

Most of the new proposed reserves are for expenditures expected in 2012 or 2013; however the exact timing and amounts are still uncertain. This includes the reserves for BNSF permitting, KCSO Fleet replacement, Public Health facility moves, and Major Maintenance projects. The Sales Tax Reserve is fund balance set aside to offset economic fluctuations that might lead to lower than forecast revenues. Lastly, the COLA Reserve is fund balance set aside to offset the increase in Cost of Living Adjustments expected in the 2013 budget.

Further information on designations and reserves can be found in the notes on the following pages.

### **Outlook**

Based on current assumptions, the General Fund is on a sustainable path for 2013 and 2014. The most critical of the assumptions is that the drive for efficiencies will continue, resulting in program cost reductions on an annual basis and a decrease in the expenditure growth rate.

## ECONOMIC AND REVENUE FORECAST

### Summary of 2012 Proposed General Fund Financial Plan (in millions)

	2010 Actual (a)	2011 Adopted	2011 Estimated	2012 Proposed	2013 Projected	2014 Projected
<b>BEGINNING FUND BALANCE</b>	<b>82.4</b>	<b>57.8</b>	<b>88.2</b>	<b>92.0</b>	<b>89.1</b>	<b>89.8</b>
<b>REVENUES (b)</b>						
Property Tax	290.8	295.3	294.4	299.1	302.9	308.8
Debt Service (c)(d)	(22.8)	(24.6)	(24.6)	(25.9)	(30.6)	(28.6)
Sales Tax (e)	72.8	70.6	75.7	77.0	78.8	83.1
CJ Revenues (f)	18.1	16.6	18.3	17.4	17.2	17.4
Interest Earnings	1.7	2.5	1.7	1.5	1.5	1.5
Fines, Forfeits, Charges for Services, Other	165.0	158.4	163.1	159.5	166.6	162.1
Intergovernmental Receipts	86.0	87.2	82.3	83.5	85.5	87.7
Interfund Receipts	23.4	27.3	27.3	27.5	28.2	28.9
Supplemental/Proposed/Potential Revenue (g)	0.0	0.0	14.0	5.7	8.3	6.0
<b>General Fund Revenues</b>	<b>634.9</b>	<b>633.4</b>	<b>652.2</b>	<b>645.2</b>	<b>658.4</b>	<b>666.9</b>
<b>EXPENDITURES</b>						
Operating Expenditures (h)	(601.1)	(592.0)	(592.0)	(621.5)	(683.6)	(694.0)
CJ Fund Expenditures (f)	(17.4)	(19.6)	(19.6)	(21.0)	0.0	0.0
CIP Expenditures (i)	(10.2)	(9.8)	(9.8)	(10.7)	0.0	0.0
Supplementals/Carryover/Reappropriations (j)	0.0	0.0	(22.0)	0.0	0.0	0.0
Potential Additional Costs (k)	0.0	0.0	(9.0)	0.0	0.0	0.0
Operating Underexpenditures (l)	0.0	1.9	3.8	5.1	5.4	5.6
2013 Efficiencies (m)	0.0	0.0	0.0	0.0	20.4	0.0
2014 Efficiencies	0.0	0.0	0.0	0.0	0.0	20.8
<b>General Fund Expenditures (n)</b>	<b>(628.7)</b>	<b>(619.4)</b>	<b>(648.5)</b>	<b>(648.1)</b>	<b>(657.8)</b>	<b>(667.6)</b>
Accounting Adjustment	(0.2)	0.0	0.0	0.0	0.0	0.0
Balance Transfer to Other Funds	(0.2)	0.0	0.0	0.0	0.0	0.0
<b>Ending Fund Balance</b>	<b>88.2</b>	<b>71.8</b>	<b>92.0</b>	<b>89.1</b>	<b>89.8</b>	<b>89.1</b>
<b>RESERVES AND DESIGNATIONS (o)</b>						
Carryover and Reappropriation	(8.0)	0.0	0.0	0.0	0.0	0.0
Designations (p)	(6.9)	(6.8)	(6.9)	(6.9)	(6.8)	(6.8)
Subfund Balances (p)	(6.5)	(2.0)	(3.1)	(2.9)	(2.7)	(2.4)
Salary and Wage Reserve	(0.7)	(2.0)	(1.4)	(1.8)	(3.6)	(3.6)
CIP Capital Reserve (q)	0.0	(1.5)	0.0	(1.5)	(1.5)	(1.5)
Parks Partnership (r)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Green River Flood Planning and Mitigation	(1.0)	0.0	0.0	0.0	0.0	0.0
Retirement Contribution Stabilization (s)	(6.4)	(9.4)	(9.4)	(12.4)	(12.4)	(12.4)
Innovation and Customer Service Reserve (t)	0.0	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
MIDD Buy-Back Reserve (u)	0.0	0.0	0.0	0.0	0.0	0.0
Emergent CJ Reserve (v)	0.0	(1.5)	(1.2)	0.0	0.0	0.0
BNSF Reserve (x)	0.0	0.0	0.0	(0.4)	(0.4)	(0.4)
KCSO Fleet Reserve (y)	0.0	0.0	0.0	(0.5)	(0.5)	(0.5)
Sales Tax Reserve (z)	0.0	0.0	0.0	(2.4)	(2.4)	(2.4)
COLA Reserve (aa)	0.0	0.0	0.0	(1.2)	0.0	0.0
Public Health Reserve for Facility Moves (ab)	0.0	0.0	0.0	(2.0)	(2.0)	(2.0)
Major Maintenance Reserve (ac)	0.0	0.0	0.0	(2.0)	(2.0)	(2.0)
Outyear Deficit Reduction Reserve (ad)	(26.7)	(3.0)	(28.1)	(5.5)	(2.5)	0.0
Risk Mitigation Reserve	(0.8)	(14.0)	(9.0)	(14.6)	(17.2)	(19.8)
<b>Reserves</b>	<b>(57.3)</b>	<b>(40.7)</b>	<b>(59.5)</b>	<b>(54.4)</b>	<b>(54.4)</b>	<b>(54.2)</b>
<b>Ending Undesignated Fund Balance</b>	<b>31.0</b>	<b>31.1</b>	<b>32.5</b>	<b>34.6</b>	<b>35.4</b>	<b>34.8</b>
6% Undesignated Fund Balance Minimum	31.0	31.1	32.5	32.0	32.6	33.0
Over/(Under) 6% Minimum (ae)	(0.0)	(0.0)	0.0	2.6	2.7	1.9
Rainy Day Reserve (ae)	15.6	15.9	15.9	15.9	16.0	16.1

**ECONOMIC AND REVENUE FORECAST**

**2012 Proposed General Fund Financial Plan**

**Footnotes**

- (a) The 2010 Actual column reflects amounts in ARMS and is consistent with the 2010 Comprehensive Annual Financial Report (CAFR).
- (b) Revenue estimates for 2011 - 2014 are based on forecasts adopted by the Forecast Council. The percentages indicate the expected annual percent change over the prior year, except for interest earnings, which is stated as the projected annual rate of return.

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Property Tax (includes portion dedicated to debt service)	Actuals	1.22%	1.60%	1.29%	1.95%
Sales Tax	Actuals	4.08%	1.65%	2.37%	5.50%
Interest Earnings	Actuals	0.60%	0.40%	0.30%	0.30%
All Other	Actuals	Individual Estimates	Individual Estimates	Individual Estimates	Individual Estimates

- (c) The debt service schedule for 2010 - 2014 is based on the following table:  
(in millions)

<b>Debt Service Elements</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Existing Debt Issues	19.8	22.9	22.8	22.1	19.8
New Debt Issuance (Green River, MRJC, ABT)			3.1	6.6	6.6
Debt contingency for new issues				2.0	2.3
<b>Total Debt Service</b>	<b>19.8</b>	<b>22.9</b>	<b>25.9</b>	<b>30.7</b>	<b>28.7</b>

- (d) Based on current projections, projected debt service expense will not exceed the 6% debt limit in 2012, 2013, or 2014.
- (e) Sales Tax forecasts for 2011 - 2014 assume the current sales tax rate.
- (f) In the 2005 Adopted Budget, the former Criminal Justice Fund was consolidated into the General Fund. Those revenues and expenditures are shown separately in this financial plan.
- (g) The 2011 estimated supplemental revenue reflect 2011 supplementals as noted in the 2nd Quarter report plus subsequent transmittals, including one-time revenue associated with the sale of the north half of the Kingdome parking lot. 2012 proposed revenue reflects the 2012 proposed budget. 2013 revenue includes the sale of the Renton public health facility, the proceeds of which will be used for targeted one-time expenditures.
- (h) Expenditure estimates for 2013 and 2014 are based on the following assumptions. The percentages indicate the expected annual percentage change over the previous year. The assumed flex rate percentage increase reflects actuarial projections based on current plan design. Expenditures projections have been adjusted for one-time expenditures.

	<b>2012</b>	<b>2013</b>	<b>2014</b>
CPI (Seattle July to June CPI W)	As Proposed	2.0%	2.2%
COLA	As Proposed	2.1%	1.9%
Benefits	As Proposed	8.0%	8.0%
Retirement	As Proposed	12.8%	10.7%
GF Transfers	As Proposed	2.8%	2.6%
Blended General Fund Growth Rate	As Proposed	4.9%	4.8%

- (i) 2012 CIP GF Transfers

Major Maintenance	(7.1)
Building Repair and Replacement	(2.1)
KCIT CIP	(1.5)
<b>Total</b>	<b>(10.7)</b>

- (j) The 2011 estimated numbers have been adjusted to reflect approved 2011 supplementals.
- (k) Potential additional costs include \$3.4 million for KCSO CID move and remodel (partially financed by CIP Capital Reserve), diappropriations for retirement and benefits, and other expenditures detailed in the 3rd omnibus. In addition, there is \$130,000 for Project Pegasus and the county's areospace initiative as well as expenditures associated with the sale of the north lot of the Kingdome.

## ECONOMIC AND REVENUE FORECAST

- (l) The 2012 Proposed Budget includes a 1.5% underexpenditure assumption in the majority of GF operating budgets. This is budgeted directly in appropriation units. An additional 0.5% is held in the General Fund financial plan, for a total underexpenditure of 2.0% for the majority of appropriation units.

An additional 0.5% underexpenditure for all General Fund budgets is included to reflect historical trends.

For the 2013 budget PSB will evaluate shifting a broad based underexpenditure assumption to an appropriation unit vacancy calculation based on specific operations.

- (m) The financial plan assumes ongoing cost savings, or a reduction in the expenditure growth rate, in 2013 and 2014. These efficiencies will be the result of the current technology investments, continuous improvement efforts, space consolidation, increased revenue services at current staffing levels, cost avoidance, working with labor partners, and budgeting efficiencies.
- (h) 2011 Estimated Expenditures

Adopted Budget	(621.3)
2010 Carryovers and 2011 Supplementals	(22.0)
Benefits and Retirement Disappropriation (included in 3rd omnibus)	1.0
North Lot Expenditures	(10.0)
Underexpenditure	3.8
<b>Total</b>	<b>(648.5)</b>

- (o) Fund balance set aside in reserve is used to offset known future increases in costs, mitigate known risks, or to fund specific programs in the future. Designations and subfund balances reflect fund balance associated with dedicated revenue streams. Ending undesignated fund balance is fund balance set aside for unknown financial and operation risks.
- (p) Designations and subfund balances include the following for each of the years (in millions):

	<b>2010 Actuals</b>	<b>2011 Adopted</b>	<b>2011 Revised</b>	<b>2012 Proposed</b>	<b>2013 Projected</b>	<b>2014 Projected</b>
Loans	(3.8)	(3.8)	(3.8)	(3.8)	(3.8)	(3.8)
Crime Victim Compensation Program	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Drug Enforcement Program	(2.8)	(2.7)	(2.8)	(2.8)	(2.7)	(2.7)
Anti-Profitteering Program	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Dispute Resolution	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Real Property Title Insurance	0.0	(0.0)	0.0	0.0	0.0	0.0
Inmate Welfare Fund Balance	(2.9)	(2.0)	(3.1)	(2.9)	(2.7)	(2.4)
Ex-CJ Fund Balance	(3.6)	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>(13.3)</b>	<b>(8.9)</b>	<b>(9.9)</b>	<b>(9.7)</b>	<b>(9.5)</b>	<b>(9.2)</b>

- (q) This reserve is for unanticipated new or expanded capital projects. These projects would be part of a supplemental proposal and could be for technology, facilities, housing or other capital projects supported by the General Fund.
- (r) This reserve helps to transition unincorporated local parks to non-profit groups and organizations in order to keep these facilities open. The money is set aside in order to assist with this transition.
- (s) Retirement rate increases in 2013-2016 are anticipated to outpace inflation. A reserve has been set up to partially offset the increase in the out years. Projected county contribution rates are 7.2% of employee salaries in 2012, 8.1% in 2013 and 9.0% in 2014.
- (t) The Innovation and Customer Service Reserve is intended to provide funding to support innovative delivery of county services. Projects that have a defined return on investment or enhance customer service will be prioritized.
- (u) The MIDD Buy Back Reserve is intended to support the criminal justice programs currently funded by the MIDD fund through supplantation legislation authorized by the state. Fund balance is set aside in this reserve beginning in 2015.
- (v) The Emergent Criminal Justice (CJ) Reserve was funded at \$1.5 million in the 2011 Adopted Budget. The Executive, County Council, and separately elected officials identified anti-gang measures as the priority use of these funds. Approximately \$330,000 is appropriated in 2011, with the remainder used to fund programs in the 2012 proposed budget. These expenditures are considered one time and will be removed in the 2013 pro forma budget.

## ECONOMIC AND REVENUE FORECAST

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- (x) The BNSF Reserve will cover the first year of operating costs related to ownership of the 20 mile eastside rail corridor. The reserve will cover the costs associated with managing the inventory of permits along the corridor, renewing existing permits and issuing new permits, and addressing encroachments. This reserve is not intended to cover any of the costs associated with direct maintenance or development of the corridor.
- (y) The KCSO Fleet Reserve is intended to offset the cost of vehicle replacement. The model of patrol cars that KCSO has historically utilized is going out of production and the new automobiles are anticipated to be more expensive.
- (z) Due to future economic uncertainty, a Sales Tax Reserve is proposed to offset any decline in economic activity and tax collections. This reserve was sized based on the difference between the current adopted forecast at the 65th percentile and the same forecast at the 95th percentile for both the undesignated sales tax and the sales tax dedicated to criminal justice programs.
- (aa) COLA is expected to increase from 1.6% in 2012 to 2.1% in 2013. This reserve sets aside fund balance to offset the increase.
- (ab) The reserve is intended to be used to address an anticipated short fall between budgeted revenue and Public Health's 2012-2014 infrastructure expense obligations as they relate to its various Public Health Centers. This reserve will be appropriated when the timing and costs of the moves are more clearly defined and will be drawn down as needed.
- (ac) Facilities Maintenance Division (FMD) has identified \$2.0 million in projects that are currently in design and will not require appropriation for construction until mid-2012. The reserve reflects commitment to fund those projects, however the transfer will not be appropriated until the design is nearly complete and FMD demonstrates the need for additional appropriation authority.
- (ad) The Outyear Deficit Reserve is intended to offset future year deficits. The projected deficit will be partially addressed through cost efficiencies. The reserve will assist in covering any remaining gap. Every dollar spent on ongoing expenditures in 2012 above the proposed budget will decrease beginning fund balance available in 2013 and increase projected 2013 expenditures, resulting in two dollars of additional deficit in 2013.
- (ae) County policy requires undesignated fund balance of 6%-8% of certain revenues. The 2012 proposed budget sets the undesignated fund balance at 6.5% in 2012, an increase from prior years. There is an additional \$15.9 million in the Rainy Day Reserve.

## *ECONOMIC DEVELOPMENT*

### **How King County Impacts the Local Economy**

One of the four service delivery goals of the King County Strategic Plan is to: “Encourage a growing and diverse King County economy and vibrant, thriving, and sustainable communities.” In addition, the King County Comprehensive Plan supports a long-term commitment to sustainable regional economic development and recognizes the importance of job opportunities to meet all skill levels. The County strives to provide the foundation for a prosperous, diverse, and sustainable regional economy – one in which the private sector and non-profit organizations can thrive and create jobs.

The foundation for a vibrant and sustainable economy consists of several elements. These include, but are not limited to, adequate public infrastructure, an educated and trained workforce, a favorable business climate with consistent and predictable regulations, land supply, research and advancing technology, affordable housing, available capital, recreational and cultural opportunities, and a healthy natural environment.

To ensure the provision of these elements, King County partners with businesses, economic development organizations, and other jurisdictions in efforts to grow the economy. The County provides infrastructure, business development, and workforce development products and services as part of its regional responsibilities. It also makes many other contributions to sustain the quality of life that attracts (and retains) businesses and a talented workforce to the region.

### **Infrastructure Development**

Adequate and well-maintained public infrastructure is the lifeblood of a strong economy. Basic public services support employment growth and increased productivity. They also contributed to a high quality of life, which more and more influences business location decisions. From roads, bridges, and airports that provide efficient mobility for freight and goods, to a transit system that reliably carries workers to their jobs, to wastewater treatment plants that protect the environment and enable industrial and commercial growth (including home-based businesses), to levees that protect businesses from flooding, to an E-911 system and emergency medical services that protect residents, public infrastructure is essential.

The importance of public infrastructure is highlighted by three recent projects:

- *Completion of the new Brightwater Wastewater Treatment Plant.* Wastewater treatment is an important infrastructure element required by businesses, including those industries highly dependent on wastewater disposal such as biotech, manufacturing and aerospace. For example, Boeing’s 787 assembly site-selection criteria included adequate wastewater treatment. The Brightwater Treatment system is designed to provide wastewater service supporting new residential customers and additional employees in manufacturing and commercial establishments. Brightwater will treat and convey up to 36 million gallons of wastewater each day for residents, businesses and employees in King and Snohomish Counties. This makes Brightwater a substantial investment in our region’s future. When the Brightwater system is operating in 2012, it will have resulted in:
  - 2,299 direct construction jobs in the area;
  - an additional 3,000 indirect jobs;
  - total labor income of \$273 million;
  - support for an additional 32,000 employees in manufacturing and commercial establishments between 2010 and 2030; and
  - support for an estimated 38,200 new housing units.

- *Howard Hansen Dam and Levee Construction.* While not a County-owned facility, King County led the regional effort to secure \$44 million in emergency federal funds for interim repairs to the north abutment of this dam, which was built in 1962. These repairs will protect the Green River Valley basin from potential devastating flooding and maintain the following economic benefits:
  - \$63 million in daily economic output; and
  - 100,000 jobs with a \$16 million per day payroll.
  
- *Construction of the new South Park Bridge.* Replacing the decaying and unsafe South Park Bridge is critical to efficient industrial activity and freight mobility in the South Seattle industrial area and the Duwamish Waterway. When completed in 2013, the new bridge will provide the following economic benefits:
  - \$80 million in new temporary wages as the construction payroll supports additional demand for local business products and services;
  - \$160 million in savings to freight haulers from reduced traffic congestion and delays, which reduces the cost to produce goods making exports more competitive in the global economy;
  - \$157 million in travel time savings for local residents and job commuters; and
  - \$1.5 billion in potential new permanent wages due to growth in aerospace, biotech, international trade, and software businesses.

### **Business Development**

King County has long supported a growing and diversified economy that provides business development opportunities throughout the county. Since 2004, King County has participated in developing and implementing “A Regional Economic Strategy for the Central Puget Sound Region” (Strategy). This Strategy identifies actions and partnerships necessary to support the region’s industrial clusters with the greatest opportunity for business growth and job creation in King, Kitsap, Pierce, and Snohomish counties. These current clusters are Aerospace, Clean Technology, Information Technology, Life Sciences, Logistics/International Trade, Military, and Tourism. King County is participating in the update of this Strategy which will be completed during the first part of 2012.

To help implement the Strategy, the County is the largest financial contributor to enterpriseSeattle, a public-private economic development partnership. enterpriseSeattle’s mission is to help retain and expand existing companies as well as recruit new firms to King County. enterpriseSeattle specializes in assisting businesses in aerospace, clean technology, information technology, interactive media, international business, and the medical device clusters. From 2006 through 2010, enterpriseSeattle’s work resulted in 4,731 new primary jobs, 9,148 total jobs, and \$1.6 billion in economic impact for our local economy.

Additionally, King County is currently involved in several regional business development projects:

- Working with the Greater Seattle Chamber of Commerce and the suburban chambers and cities to ensure broad business response to the 2011 Job Sector Survey. The Survey is intended to provide information to help economic development policymakers and practitioners stay abreast of what is necessary to support existing businesses and attract new ones.
- Partnering with the City of Seattle, and possibly other cities, to encourage private investment in manufacturing and industrial centers by identifying and removing regulatory development barriers without compromising environmental standards and quality.
- Contributing to the development of a Manufacturing Capabilities Database by the Center for Advanced Manufacturing Puget Sound. The Database will identify the capabilities of small and medium-size manufacturers and will be marketed to encourage large Washington State manufacturers to include more of local companies in their supply chains.

- Working with the Washington State Defense Partnership to help our local defense contractors gain a greater share of defense contracts.
- Partnering with the State, cities, and other organizations as part of the aerospace initiative.

### **Workforce Development**

A highly-skilled workforce is essential to the success of businesses in all of industry clusters. As the workforce ages, the region must educate and train youth and retrain dislocated workers with the skills local businesses need to compete in the global economy. There is an increasing demand for skilled workers in STEM (science, technology, engineering, and mathematics) jobs, and we must provide greater higher educational opportunities to educate residents in these professions. At the same time, we must not overlook the opportunities to train residents for good-paying, middle-income technical and trades jobs. And, we must continue to provide educational and training opportunities in all areas to ensure we have a well-rounded and diversely-educated populace.

Along with the City of Seattle, King County created the nonprofit Workforce Development Council (WDC) of Seattle-King County in 2000 to invest federal, state and other funds to train and reemploy dislocated workers and low-income adults and provide work experiences and academic support to at-risk youth. The WDC's mission and impact have been to assist in ensuring a vibrant local economy and self-sufficiency for every resident of King County. King County oversees and has fiduciary responsibility for the WDC's performance, and the Executive, along with the Mayor of Seattle, appoints the WDC private-sector-led board. During 2010, the WDC's WorkSource Seattle-King County regional system provided free employment services to 120,000 jobseekers, and WDC programs served 5,500 laid-off workers, low-income adults, at-risk youth and others with one-on-one coaching, academic support, and job training.

### **Quality of Life Contributions**

In addition to the results of the specific products and services provided by King County, the County contributes in many other ways to help maintain the area's special quality of life. While infrastructure and workforce are the two most critical factors in business startup, expansion, and location decisions, the comparative quality of social and natural environments of competing jurisdictions can strongly influence these decisions.